PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3033
FEBRUARY 3, 1993

R E S O L U T I O N

RESOLUTION G-3033. SOUTHERN CALIFORNIA GAS COMPANY SUBMITS PROPOSED RATES FOR INTRASTATE TRANSPORTATION OF GAS AND CORE SERVICE IN ORDER TO FULLY IMPLEMENT THE CAPACITY BROKERING PROGRAM CONSISTENT WITH THE PROVISIONS IN DECISIONS 91-11-025 AND 92-07-025.

BY ADVICE LETTER 2133, FILED ON AUGUST 12, 1992

SUMMARY

1. By Advice Letter 2133, filed August 12, 1992, Southern California Gas Company (SoCalGas) requests approval of its proposed tariff schedules and rules to fully implement the Capacity Brokering program set forth in Decision (D.) 91-11-025 and D.92-07-025. Commission Resolution G-3023 issued on December 16, 1992, approved Advice Letter 2133, in part, deferring review of the proposed rates to a subsequent resolution.

2. Intrastate transportation rates filed in Advice Letter 2133 have been revised to exclude interstate pipeline demand charges. Core rates have also been revised to reflect the changes resulting from the new core interstate capacity reservation adopted in D.91-11-025.

3. This Resolution conditionally approves the rates filed in Advice Letter 2133, pending submittal and approval of compliance tariffs filed to reflect the most current rates authorized by the Commission.

4. The rates and services offered in the compliance tariffs will not be effective until capacity reallocation programs for El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern) have been authorized by the Federal Energy Regulatory Commission (FERC), the programs are in place, and the contracts between SoCalGas and its customers for interstate capacity are accepted by the interstate pipelines and effective.

BACKGROUND

1. In the Capacity Brokering policy decision, D.91-11-025, the Commission ordered Pacific Gas and Electric (PG&E), San Diego Gas and Electric (SDG&E) and SoCalGas to file pro forma tariffs for the implementation of capacity brokering[1] of utility interstate pipeline capacity. During subsequent hearings in the Order Instituting Rulemaking (R.) 88-08-018 proceeding, parties discussed potential changes to the pro forma tariffs and resolved outstanding issues. In the Capacity Brokering implementation decision, D.92-07-025, the Commission modified and made additional program changes to D.91-11-025. The utilities were ordered to file tariffs by August 12, 1992 identical to the pro forma tariffs except to the extent changes were required as set forth in D.92-07-025 or by orders of FERC.

2. On August 12, 1992, SoCalGas filed Advice Letter 2133 in compliance with D.92-07-025. Commission Resolution G-3023 issued on December 16, 1992 conditionally approved Advice Letter 2133, except for the rates filed therein, pending submittal and approval of compliance tariffs filed pursuant to the modifications ordered in that Resolution. Review of the rates contained in Advice Letter 2133 and related protest issues was deferred to a subsequent Commission resolution.

3. This Resolution addresses the rates and related protest issues filed in Advice Letter 2133.

NOTICE

Public notice of Advice Letter 2133 was made by publication in the Commission calendar, and by SoCalGas' mailing copies to the service list of R.88-08-018 and to all interested parties who requested notification.

PROTESTS

The following parties filed protests on issues related to the rates filed in SoCalGas Advice Letter 2133:

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1 "Capacity Brokering" refers to the method of soliciting pre-arranged deals for interstate pipeline capacity. These pre-arranged deals are subject to a second round of bidding after the pre-arrangements are posted on the interstate pipeline's electronic bulletin board. This second round of bidding is known as capacity reallocation and is under the jurisdiction of FERC.

1. The Commission Division of Ratepayer Advocates (DRA) — September 1, 1992

2. Southern California Utilities Power Pool and the Imperial Irrigation District (SCUPP/IID) — August 31, 1992

SoCalGas filed its response to the above protests on September 14, 1992.

DISCUSSION

I. DRA Protest

A. Schedule GW-LB, Wholesale Natural Gas Service for the City of Long Beach

DRA protests the proposed Schedule GW-LB because it presents a change from the current rate design for Long Beach. This change consists of a single volumetric rate which is contrary to the current rate structure of a volumetric rate tied to the volumetric rate of the Edison/SoCalGas contract and a demand charge which represents the difference between Long Beach's allocated cost and revenues from the volumetric rate. The Edison/SoCalGas contract expires upon implementation of Capacity Brokering.

DRA states that any rate design changes would be inconsistent with page (p.) 65 of D.91-11-025 which indicated that no rate design changes, other than those required to implement the rules of Capacity Brokering should be made. DRA believes that the spirit of the Commission's no rate design change would still be upheld if the Commission adopts a seasonal rate design for Long Beach, as proposed by DRA in its Report on Capacity Brokering Implementation Issues, January 1992. DRA's proposal is the same seasonal rate design methodology currently used for industrial and utility electric generation (UEG) rate groups. In addition, DRA's rate design for Long Beach is not tied to a contract which may not exist when these tariffs become effective.

In its response to the DRA protest, SoCalGas states that D.91-11-025 does not require a demand charge/volumetric rate structure for Long Beach. Moreover, D.91-11-025 did not address the issue of rate parity and the competitive aspects of ratesetting between Long Beach and retail UEG customers or the guidance already provided by the Commission in several recent decisions.

SoCalGas states it can not establish a marginal rate for Long Beach equal to the volumetric rates established for retail UEGs since, overall, the Long Beach rate is less than the retail UEG rate. Instead, SoCalGas has established a single volumetric rate for Long Beach which closes the gap, as much as possible, between Long Beach's rate and SoCalGas' retail UEG rates. Instituting a seasonally differentiated rate for Long Beach, as DRA proposes, may only aggravate load shifts by creating a larger rate differential in the peak summer months.

DISCUSSION

CACD notes that Long Beach did not submit a protest to the rates proposed in Schedule GW-LB.

CACD does not believe that the Commission expressly excluded rate design changes resulting from implementation of Capacity Brokering rules. D.91-11-025, p. 65, states, "... we will not consider changes to existing rules except as required to implement the rules adopted today." With the expiration of the Edison/SoCalGas contract under Capacity Brokering, rate design changes are necessary for Long Beach. Therefore, it is appropriate to consider proposed changes to the rate design for Long Beach.

Currently, Edison is receiving service from SoCalGas under a contractual agreement. Edison also receives service from Long Beach who is in turn a SoCalGas customer. D.91-05-039 and D. 91-12-075 both adopted a volumetric rate for Long Beach which is directly tied to the volumetric (tailblock) rate charged to Edison under the contract. The decisions also adopted a demand charge for Long Beach which recovers the balance of allocated costs.

SoCalGas' proposal is designed to maintain some degree of parity between Long Beach's rate and SoCalGas' retail UEG rates. However, since it is not tied to a volumetric rate lower than Long Beach's average rate, it is questionable whether any meaningful approximation of parity would exist. Furthermore, it is highly unlikely that any significant shifts of Edison's load from SoCalGas to Long Beach would result from using seasonal volumetric rates in lieu of a single volumetric rate. As the Commission found in D.92-06-033, p. 16, significant load shifts did not occur even when SoCalGas' marginal rate to Long Beach was less than SoCalGas' marginal rate to Edison.

CACD recommends that Long Beach's rates should be based on the default rate design methodology of seasonal volumetric rates as proposed by DRA.

B. Schedule GW-SD - Reduction of SDG&E's rates.

DRA states that in the workpapers to Advice Letter 2133, SoCalGas included calculations of SDG&E's rates which incorporated resultant changes due to implementation of Capacity Brokering. These rates reflect a reduction in SDG&E rates in the form of lower demand charges. Based on the models used in Commission decisions on biennial cost allocation proceedings

(BCAPs), SoCalGas should apply reductions to SDG&E's rates to all rate components, not just demand charges.

SoCalGas responds that the most significant change in SDG&E's rates under Capacity Brokering represents the reduction in pipeline demand charges. To some extent, this reduction was offset by the allocation of Pacific Interstate Transmission Company and Pacific Offshore Pipeline Company (PITCO/POPCO) excess costs. Also, under the SoCalGas/SDG&E long-term contract interstate pipeline fixed charges are paid through the demand charge. In light of these considerations, SoCalGas believes it is reasonable to reflect the entire rate change necessary to implement Capacity Brokering within SDG&E's demand charge component. However, SoCalGas would not object to modifying both the demand charge and volumetric rates, if so desired by SDG&E and the Commission.

DISCUSSION:

CACD agrees with DRA. Rate reductions should be allocated to all rate components. SoCalGas should not depart from cost allocation models adopted in previous Commission decisions.

However, SoCalGas fails to acknowledge that Article 3.1.6 of the SDG&E/SoCalGas long-term contract, approved in Commission Resolution G-2921, specifically sets forth that demand and volumetric charges, "... shall be adjusted one (1) time during each Contract Year starting from the base established by CPUC Decision 90-01-015..." According to Article 3.1.7 of this long-term contract, substantive changes to the annual cost allocation proceeding (ACAP) rate design may be made upon request by either SDG&E or SoCalGas to bring the provisions of the contract into conformance with the revised ACAP rate design. [Note: ACAPs were replaced by BCAPS which in turn have recently been replaced by triennial cost allocation proceedings (TCAPs).] This article does not provide for substantive rate design changes outside of a cost allocation proceeding. Therefore, SoCalGas cannot "unbundle" or subtract interstate pipeline demand charges from SDG&E's intrastate transportation rates under Capacity Brokering. SoCalGas and SDG&E may renegotiate the terms of the contract including unbundling of interstate pipeline demand charges from intrastate transportation rates. However, this contract must be submitted to the Commission for approval.

Therefore, the flowing of the reduction of rates to all rate components is moot at this time. Should SoCalGas and SDG&E renegotiate their long-term contract allowing SDG&E's rate to be unbundled, CACD recommends that any additions or reductions to rates follow the models approved in Commission decisions on SoCalGas' cost allocation proceedings, unless otherwise set forth by the Commission.

II. SCUPP/IID Protest

SCUPP/IID request that SoCalGas explain why UEG rates are higher than both enhanced oil recovery (EOR) and cogeneration rates, and that SoCalGas be required to provide workpapers illustrating derivation of the illustrative transmission charges. SoCalGas' Preliminary Statement shows EOR and cogeneration customers as paying summer/winter transmission charges of 5.773/8.612 cents per therm. Yet, UEG customers are shown as paying summer/winter transmission charges of 5.882/8.721 cents per therm.

SoCalGas responded that the minor differences set forth in SoCalGas' tariff reflect the fact that summer/winter load profiles of the non-EOR cogeneration and UEG classes are different and that cogeneration/UEG parity is maintained on an annual forecast basis. This seasonal rate differential is currently in effect and was approved by the Commission in SoCalGas' most recent BCAP.

DISCUSSION:

CACD agrees with SoCalGas. The summer and winter rate differentials for the UEG and cogeneration classes are equal because the throughputs used to determine the rates are used on a combined basis. However, the rates for the two classes are different because the ratios of summer and winter throughputs are different. CACD recommends that SCUPP/IID's protest be denied.

III. OTHER ISSUES

A. CHANGE TO THE WEIGHTED AVERAGE COST OF GAS (WACOG)

In D.92-07-025, Conclusion of Law (COL) 10, the Commission adopted SoCalGas' method for estimating costs of excess PITCO/POPCO gas supplies. Based on this methodology, total PITCO/POPCO costs are placed in the Purchase Gas Account (PGA) and PITCO/POPCO excess costs are removed. Pursuant to COL 11 of this decision, these excess costs are included in intrastate transportation rates. As a result of this calculation, non-excess PITCO/POPCO costs including interstate demand charges remain in the PGA.

CACD notes that SoCalGas does not propose to reflect the resultant adjustment to the PGA at this time because the adjustment represents an insignificant increase. This adjustment is insignificant because PITCO/POPCO interstate demand charges which are to remain in the PGA are approximately $125 million while PITCO/POPCO excess costs which are to be subtracted from the PGA are approximately $124 million. This difference represents a slight increase of less than 2 cents to the forecasted WACOG which is a component of the PGA.

In discussions with CACD, SoCalGas has proposed to incorporate the adjustment to the forecasted WACOG in its next cost allocation proceeding.

Because the impact of this adjustment is negligible, CACD recommends that SoCalGas defer the adjustment of the forecasted WACOG until the next cost allocation proceeding. CACD also recommends that SoCalGas modify its Preliminary Statement to record in the PGA on a monthly basis the total PITCO/POPCO cost less actual PITCO/POPCO excess costs for the month. CACD notes that like all other components of the PGA, the adjustment will be considered for reasonableness in an appropriate Commission proceeding.

B. EXCESS COSTS OF PITCO/POPCO - TRACKING ACCOUNT

In D.92-07-025, the estimated amount of $124 million annually in excess costs was adopted. Under Capacity Brokering, excess PITCO/POPCO costs are to be allocated to both core and noncore customers on an equal-cents-per-therm basis and included in intrastate transportation rates. However, SoCalGas' Preliminary Statement does not include a balancing account to record actual PITCO/POPCO excess costs.

CACD recommends that SoCalGas modify its Preliminary Statement to include a balancing account to record the difference between forecasted and actual PITCO/POPCO excess costs on a monthly basis. The balance in this account should be allocated during the next cost allocation proceeding on an equal-cents-per-therm basis.

C. APPROVAL OF SOCALGAS' RATES

CACD has reviewed SoCalGas' workpapers which support the changes to noncore intrastate transportation rates due to the unbundling of interstate pipeline demand charges, the inclusion of PITCO/POPCO excess costs in core rates and noncore intrastate transportation rates, and changes to core rates resulting from the new core interstate capacity reservation of 1,067 million cubic feet per day (Mmcf/d). CACD recommends the Commission conditionally approve the proposed rates set forth in SoCalGas' Advice Letter 2133, pending submittal of a compliance filing which incorporates modifications recommended in this Resolution and any changes authorized by FERC under the capacity release programs for El Paso and Transwestern pipelines. SoCalGas should also make any other minor modifications to its tariffs as documented by CACD in discussions with SoCalGas. The rates filed in the compliance filing should reflect the most current rates authorized by the Commission. The rates should become permanent upon written consent by CACD.

The rates and services offered in the revised tariffs will not be effective until (1) capacity reallocation programs authorized by FERC are in place and (2) the contracts between

SoCalGas and its customers are accepted by the interstate pipelines and effective.

CACD recommends that, no later than 20 days prior to full implementation of Capacity Brokering, SoCalGas by separate advice letter should once again file all revised Capacity Brokering tariffs. This advice letter should reflect the following:

1. The most current rates authorized by the Commission at that time.

2. Changes resulting from intrastate transportation and core subscription open seasons.

3. Any modifications required by FERC.

FINDINGS

1. Currently, Edison is receiving service from SoCalGas under a contractual agreement. Edison also receives service from Long Beach who is in turn a SoCalGas customer.

2. It is appropriate to consider proposed changes to the rate design for Long Beach because the Edison/SoCalGas contract expires under Capacity Brokering.

3. SoCalGas' proposed rate design methodology for Long Beach is designed to maintain some degree of parity between Long Beach's rate and SoCalGas' retail UEG rates. However, since it is not tied to a volumetric (tailblock) rate lower than Long Beach's average rate, it is questionable whether any meaningful approximation of parity would exist.

4. It is highly unlikely that any significant shifts of Edison's load from SoCalGas to Long Beach would result from using seasonal volumetric rates in lieu of a single volumetric rate.

5. Long Beach's rates under Schedule GW-LB should be based on the default rate design methodology of seasonal volumetric rates as proposed by DRA.

6. Article 3.1.6 of the SDG&E/SoCalGas long-term contract specifically sets forth that demand and volumetric charges, "... shall be adjusted one (1) time during each Contract Year starting from the base established by CPUC Decision 90-01-015..."

7. Article 3.1.7 does not provide for substantive rate design changes outside of a cost allocation proceeding. Therefore, SoCalGas cannot "unbundle" or subtract interstate pipeline

demand charges from SDG&E's intrastate transportation rates under Capacity Brokering.

8. The flowing of a reduction to SDG&E's rates to all rate components is moot at this time.

9. If SoCalGas and SDG&E renegotiate their long-term contract allowing SDG&E's rate to be unbundled, any additions or reductions to rates should follow the models approved in Commission decisions in SoCalGas' cost allocation proceedings, unless otherwise set forth by the Commission.

10. Total PITCO/POPCO costs are placed in the Purchase Gas Account (PGA) and then excess PITCO/POPCO costs are removed. As a result of this calculation, non-excess PITCO/POPCO costs including interstate demand charges remain in the PGA.

11. SoCalGas does not propose to reflect the resultant adjustment to the PGA at this time because the adjustment represents a negligible increase to the forecasted WACOG which is a component of the PGA.

12. SoCalGas should defer the adjustment of the forecasted WACOG resulting from the inclusion of total PITCO/POPCO costs and subsequent removal of excess PITCO/POPCO costs until the next cost allocation proceeding.

13. SoCalGas should modify its Preliminary Statement to record in the PGA on a monthly basis the total PITCO/POPCO cost less actual PITCO/POPCO excess costs for the month.

14. Under Capacity Brokering, excess PITCO/POPCO costs are to be allocated to both core and noncore customers on an equal-cents-per-therm basis and included in intrastate transportation rates. However, SoCalGas' Preliminary Statement does not include a balancing account to record <u>actual</u> PITCO/POPCO excess costs.

15. SoCalGas should modify its Preliminary Statement to include a balancing account to record the difference between forecasted and actual PITCO/POPCO excess costs on a monthly basis. The balance in this account should be allocated during the next cost allocation proceeding on an equal-cents-per-therm basis.

16. The proposed rates set forth in SoCalGas' Advice Letter 2133 should be approved pending submittal of a compliance filing which incorporates modifications recommended in this Resolution and any changes authorized by FERC under the capacity release programs for El Paso and Transwestern pipelines.

17. SoCalGas should also make any other minor modifications to its tariffs as documented by CACD in discussions with SoCalGas.

18. The rates filed in the compliance filing should reflect the most current rates authorized by the Commission.

19. The rates proposed in the compliance filing should become permanent upon written consent by CACD.

20. The rates and services offered in the revised tariffs will not be effective until (1) capacity reallocation programs authorized by FERC are in place and (2) the contracts between SoCalGas and its customers are accepted by the interstate pipelines and effective.

21. By separate advice letter, no later than 20 days prior to full implementation of Capacity Brokering, SoCalGas should file all revised Capacity Brokering tariffs reflecting the following:

a. The most current rates authorized by the Commission at that time

b. Changes resulting from intrastate transportation and core subscription open seasons.

c. Any modifications required by FERC.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company shall file by February 17, 1993, a supplemental advice letter containing revised tariffs which incorporate the changes identified in the findings above, any other minor modifications requested by the Commission Advisory and Compliance Division, and any changes authorized by the Federal Energy Regulatory Commission under the capacity release programs for El Paso Natural Gas Company and Transwestern Pipeline Company. The rates filed in the compliance filing shall reflect the most current rates authorized by the Commission.

2. The revised tariffs shall be approved February 26, 1993, following written consent by the Commission Advisory and Compliance Division.

3. The rates and services offered in the revised tariffs will not be effective until (a) capacity reallocation programs authorized by the Federal Energy Regulatory Commission are in place and (b) the contracts between Southern California Gas Company and its customers are accepted by the interstate pipelines and effective. This Ordering Paragraph supersedes Ordering Paragraph 3 of Commission Resolution G-3023.

4. Southern California Gas Company shall file by separate advice letter, no later than 20 days prior to full implementation date of Capacity Brokering, revised Capacity Brokering tariffs that reflect the following:

a. The most current rates authorized by the Commission at that time

b. Changes resulting from intrastate transportation and core subscription open seasons.

c. Any modifications required by the Federal Energy Regulatory Commission.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 3, 1993. The following Commissioners approved it:

Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners